

HOUSE OF REPRESENTATIVES STAFF ANALYSIS

BILL #: PCB WMC 17-03 Pro-growth Federal Tax Reform

SPONSOR(S): Ways & Means Committee

TIED BILLS: **IDEN./SIM. BILLS:**

REFERENCE	ACTION	ANALYST	STAFF DIRECTOR or BUDGET/POLICY CHIEF
Orig. Comm.: Ways & Means Committee	12 Y, 6 N	Schmiege	Langston

SUMMARY ANALYSIS

The federal tax code is complex and costly to comply with, has not been significantly updated in 30 years, imposes relatively high statutory tax rates and arbitrary depreciation rules on American businesses, and suppresses economic growth.

With this memorial, the Florida Legislature urges the United States Congress to support pro-growth federal tax reform to address the various problems with the federal tax code by permanently lowering tax rates, repealing the estate tax and the alternative minimum tax, moving to territorial taxation, and implementing full business expensing.

Legislative memorials are not subject to the Governor's veto power and are not presented to the Governor for review. Memorials have no force of law—they are mechanisms for formally petitioning the U.S. Congress to act on a particular subject.

This memorial does not have a fiscal impact.

FULL ANALYSIS

I. SUBSTANTIVE ANALYSIS

A. EFFECT OF PROPOSED CHANGES:

Background

Federal Tax Code:

Title 26 of the United States Code encapsulates the Federal Tax Code. This is the primary area in which federal tax laws are codified. The tax code is frequently updated and amended. Various authorities note how numerous these additions have been over the years.¹ Further, much of the tax code's growth has occurred in the last 30 years.² However, there has not been an overarching tax reform implementation in approximately 30 years.³ The United States Tax Code has been overhauled several times in its history.⁴ Title 26 was initially compiled in 1939.⁵ Since then, the tax code has been completely overhauled in 1954 and 1986.⁶ These overhauls have occurred at roughly 30 year intervals since Title 26's inception.

When considering the entirety of federal tax law in the United States, the tax code is an estimated 75,000 pages,⁷ of which Title 26 of the United State Tax Code, alone, is a fraction.⁸ The 75,000 page estimate includes statutes, regulations, case law, annotations, and other information deemed necessary for tax experts to thoroughly interpret the entire tax code.⁹

Compliance with the tax code involves making tax payments, along with producing and submitting information to the tax authorities on time and in the required formats. The tax code is long and variable. Many tax laws have exceptions. Many tax laws have exceptions to exceptions. In order to ensure compliance, many people and companies hire tax experts to help ensure they are not in violation of the tax code. Each year, Americans and businesses aggregately spend billions of hours complying with tax laws, and in doing so spend billions of dollars in compliance.¹⁰

Statutory Tax Rates:

The United States has some of the highest statutory income tax rates in the world.¹¹ The highest marginal corporate tax rate, found in Section 11 of the Tax code, is 38.9 percent, and corporations in

¹ <http://www.washingtonexaminer.com/look-at-how-many-pages-are-in-the-federal-tax-code/article/2563032>;
<https://taxfoundation.org/federal-tax-laws-and-regulations-are-now-over-10-million-words-long/>

² <http://www.washingtonexaminer.com/look-at-how-many-pages-are-in-the-federal-tax-code/article/2563032>

³ https://www.census.gov/history/www/reference/privacy_confidentiality/title_26_us_code_1.html

⁴ *Id.*

⁵ *Id.*

⁶ *Id.*

⁷ <http://www.washingtonexaminer.com/look-at-how-many-pages-are-in-the-federal-tax-code/article/2563032>;
<http://www.cch.com/wbot2013/factsheet.pdf>

⁸ <https://www.forbes.com/sites/peterjreilly/2015/09/21/tax-code-explained-why-it-matters-presidential-race/#4b2d69f123f8> ;
http://www.slate.com/articles/news_and_politics/politics/2014/04/how_long_is_the_tax_code_it_is_far_shorter_than_70_000_pages.html

⁹ <http://www.cch.com/wbot2013/factsheet.pdf>

¹⁰ <https://taxfoundation.org/federal-tax-laws-and-regulations-are-now-over-10-million-words-long/>;
https://www.irs.gov/pub/tas/08_tas_arc_msp_1.pdf

¹¹ 26 U.S.C.S. § 11

the highest income tax bracket are charged a statutory rate of 35 percent.¹² These corporate tax rates are among the top 10 worldwide corporate tax rates.¹³

The top 10 statutory tax rates are as follows:

- United Arab Emirates: 55 percent
- Puerto Rico: 39 percent
- United States: 38.9 percent
- Argentina: 35 percent
- Chad: 35 percent
- Congo, Democratic Republic Of The: 35 percent
- Equatorial Guinea: 35 percent
- Guinea: 35 percent
- Malta: 35 percent
- Virgin Islands: 35 percent

Repatriation:

When United States companies earn money overseas, they are taxed in the jurisdiction in which they earned the money. If the company repatriates those overseas earnings back to the United States, that corporation may also owe taxes to the United States. The United States operates under a worldwide tax regime, meaning that it taxes corporations based on their worldwide earnings. However, the United States offers a foreign tax credit to companies with foreign income. If a company pays tax to a foreign country, then they do not have to pay that percentage of taxes to the United States. Instead, the corporations pay the difference in the tax rates to the United States.

Depreciation:

Depreciation is an income tax deduction that allows a taxpayer to recover the cost or other basis of certain property. It is an annual allowance for the wear and tear, deterioration, or obsolescence of the property.¹⁴ If a taxpayer owns property, uses it for a business, and that property has a determinable useful life of more than one year, then the taxpayer can generally take depreciation deductions.¹⁵ Congress has established class lives and depreciation methods for various assets.¹⁶

U.S. Economic Growth:

The gross domestic product (GDP) is the total value of goods produced and services provided in a country during one year. The GDP is one of the primary indicators used to measure the health of a country's economy. The average annual growth in real (inflation adjusted) U.S. GDP was 2.1 percent over the past five years, and 2.6 percent over the past 30 years.¹⁷

Current Federal Tax Reform:

The U.S. House of Representatives is currently considering overarching tax reform of the federal tax code.¹⁸ Congress is meeting with the Trump administration to determine the best tax policies. One

¹² *Id.*

¹³ <https://taxfoundation.org/corporate-income-tax-rates-around-world-2015/>

¹⁴ 26 U.S.C.S. § 167

¹⁵ *Id.*

¹⁶ *Id.*

¹⁷ <https://bea.gov/national/index.htm#gdp>

¹⁸ <https://taxfoundation.org/details-and-analysis-2016-house-republican-tax-reform-plan/>

current proposed plan would reform the income tax code by lowering marginal tax rates on wages, investment, and business income. Further, it would lower the corporate income tax rate to 20 percent, and convert it into a destination-based cash-flow tax. Finally, the plan would eliminate federal estate and gift taxes.¹⁹ The eventual outcome of the legislation is unclear at present.

Effect of Proposed Changes

PCB WMC 17-03 petitions the United States Congress to support pro-growth federal tax reform to address the various problems with the federal tax code by permanently lowering tax rates, repealing the estate tax and the alternative minimum tax, moving to territorial taxation, and implementing full business expensing.

Copies of the memorial will be sent to the President of the United States, to the President of the United States Senate, to the Speaker of the United States House of Representatives, and to each member of the Florida delegation to the United States Congress.

Legislative memorials are not subject to the Governor's veto power and are not presented to the Governor for review. Memorials have no force of law, as they are mechanisms for formally petitioning the federal government to act on a particular subject.

B. SECTION DIRECTORY:

Not applicable.

II. FISCAL ANALYSIS & ECONOMIC IMPACT STATEMENT

A. FISCAL IMPACT ON STATE GOVERNMENT:

1. Revenues:

None.

2. Expenditures:

None.

B. FISCAL IMPACT ON LOCAL GOVERNMENTS:

1. Revenues:

None.

2. Expenditures:

None.

C. DIRECT ECONOMIC IMPACT ON PRIVATE SECTOR:

None.

D. FISCAL COMMENTS:

None.

¹⁹ *Id.*

III. COMMENTS

A. CONSTITUTIONAL ISSUES:

1. Applicability of Municipality/County Mandates Provision:

Not applicable.

2. Other:

None.

B. RULE-MAKING AUTHORITY:

None.

C. DRAFTING ISSUES OR OTHER COMMENTS:

None.

IV. AMENDMENTS/ COMMITTEE SUBSTITUTE CHANGES